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A Theoretical and Critical Review

Xing Li and Woodrow W. Clark

Abstract

This article discusses the ideological triumph of the free market and liberal democracy from the developed nations after the end of the Cold War and its impact upon developing nations. We utilize an integrated historical-economic-political approach to study the concepts and inherent logic, primarily from the USA and UK as they steer international finance organizations toward their particular definition of globalization and the "Next Economy". Globalization is the current manifestation of the "free market" as companies contract and form "Next Firms" in developing countries for goods and services from less expensive work-forces, limited regulations and restrictions including environment, taxation, corporate governance and political influence, The article reveals that this particular paradigm is an ideologically rooted one that cannot serve as a universal political-economic model.

Furthermore, the Anglo-Saxon free market system has failed to fulfill its functions in most transition and emerging nations as it is predictably bound to fail in developing countries. While we are more reticent to predict its failure in the Anglo-Saxon milieu, we argue that the "free market" and "free competition" model never existed there in the first place. Our conclusion maintains that liberal democracy will be more and more market driven, but that the magical "invisible hand" will never exist so that a stronger and re-directed "social contract" must be made between government and the public and business. Not only is the Next Economy upon us now but also a Next era of social consciousness.

Introduction

The end of the Cold War and the collapse of the socialist bloc, along with the crisis of the Swedish welfare state model[1], allowed two fundamental Western ideological values to triumph as the dominant paradigm for economic development throughout the world: free market economy and liberal democracy.

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1 The neo-classical globalization has had a special impact on welfare states in general and Northern European welfare states in particular because their high level of social security taxes and public spending were seen to cause low competitiveness and high unemployment. Governments in these countries, such as Sweden, responded to the wide-ranging pressures by distancing themselves from Keynesianism through gradual withdrawal from the responsibilities of welfare provision and by adopting neo-classical economic measures (decentralization, marketization and privatization) in order to become competitive.

The contemporary combination of these two values has become the prerequisite for interactions between nations expecting political "acceptance" by the international community or seeking economic aid from international financial institutions. This position can be seen repeatedly in a number of international multi-lateral organizations such as the UN, World Bank, WTO and others throughout the early and mid-1990s.

Besides dramatic transformations in political ideologies taking place in the post-Cold War era, even the so-called free market economy has also undergone qualitative and quantitative changes. Today, it is termed the *Next Economy*, which refers to a computer technology- and internet-based economy not bound by the same physical constraints as the "old economy" (Baker, 2000, pp. 14). Clark and Feinberg (2003) studies the Next Economy in an analysis of the California economy as it began to emerge in the 21st Century. This Next Economy for California has impacts globally. It implies new ways of doing business where the keys to employment creation, economic growth and higher standards of living are ideas, knowledge, innovations and technologies embedded in services and manufactured products. The rules of the game of the Next Economy are simple and clear: risk, uncertainty, temptation, challenging, gambling, and constant adaptation. However, by the beginning of the new millennium, serious questions were raised about the feasibility and viability of such economic models beyond only a few developed nations (Clark, 1998). No less than the mass media champion of the free market, *The Economist* (Sept. 13, 1997 and July 24, 1999 in particular and then repeated since then) has questioned some basic tenants in the established manner in which developed nations conduct business: are these nations "internationalized" as in "globalization" so that they produce cheap goods and services? And how do they lead in high technologies and emerging markets?

This questioning even within the establishment of two these political or theoretical propositions has lead to some serious theoretical reflections and the need for in-depth critical thinking. The end of the Cold War means that history, in the sense of ideological conflict, has come to an end with the final triumph of Western ideological value system (Fukuyama, 1992). Recently, the free market and liberal democracy are being promoted by an even more grand vision called "globalization." Now however, in the 21st Century a new twist has occurred to once more challenge even these assumptions. The advent of the internet, web sites, and a plethora of "dot.coms" has caused enormous international self-analysis and re-discovery (*The Economist*, July 24, 1999, pp. 21-24 and *Business Week*, March 28, 2000 among others). Ideology is no longer confined to the school books, mass media and politicians. It literally excels over cyber space being challenged, driven and modified daily. What underlies these fundamental changes?

Globalization is one key element which can be easily conceptualized by its impact on three basic arenas of social life: the economy, the polity and culture. In other word, the notion of globalization maintains that a multiplicity of states with unique political cultures (nation-states) is being integrated by a common economic system. The possibility of such a common economic system requires at the same time a common political culture, social system, common language, and common policies. This is also the point of departure on which the arguments of Fukuyama and Huntington are based: The nation-states of the world are moving towards a common political culture of liberal democracy. Liberal democracy has come to mean a commitment to free market capitalism because it is believed that only the free market can guarantee individual freedom and rights that lead to liberal democracy. This is the discourse on which the ideology of free market and liberal democracy is conceptually grounded and the American "New World Order" is politically founded along with the Anglo-Saxon imperative drawn from neo-classical economics (Reinert, 1997).

The triumph of neo-classical economics, despite persistent criticism, has nowadays reached an elevation as the paradigmatic framework to analyze all spheres of society and human life including international relations. At the same time democracy has in recent years been elevated to the position of good government on a global scale embracing all systems and cultures (Helgesen and Li, 2000). The combination of these two is being promoted to become what Heilbroner (1996) calls "science" - the explanation system, i.e. a way to study human beings and societies. But some of the key issues concern what are the elements of the "next economy" and what is the role of government(s) getting each nation-state there?

This article intends to critically analyse this ideological paradigm by revealing that it is neither scientific nor universal. Aside from the inherent contradictions within each concept and between them it is demonstrated that the particular Anglo-Saxon focus on neo-classical economics is extremely narrow (ideological) and biased toward only one way of viewing economic and business policies and programs. In this paper, the focus is primarily placed upon the ideological economic issues which confront all nations including the political dimensions as well as internationalization. For developing, transitional and emerging economies, the reliance on Anglo-Saxon economic ideologies is both disastrous to the national economy but also an inhibitor to any movement for the creation of a stable liberal democratic society (Reinert, 1998).

Understanding "economics"

The economic order of market capitalism is philosophically and ideologically based on a set of assumptions that focus on the *individual*. As Casson argues, "economists have been too narrow-minded in the way that they have sought to apply their analytical principles. Economists have become prematurely attached to a very materialistic view of human motivation” (1996, pp. 1152). The results , following the neo-classical paradigm of Adam Smith, are view of the world whereby individuals need to accumulate wealth, much as nations need to as well. Reinert (1998) noted, however, that this particular approach was unique to Anglo-Saxon philosophical traditions and was not common among other European or developed countries, let alone, developing or emerging economics.

The conventional market economic argues that : 1) economics should be the dominant institution in modern society; 2) sustained economic growth is necessary to provide jobs and to provide the resources to clean up the environment; 3) steady increase in productivity is necessary for continued gains in standards of living; 4) technological advance and competition are essential for progress; and 5) free and unregulated markets generally result in the most efficient and socially optimal allocation of resources. All in all, it assumes that “all human behavior can be viewed as involving participants who maximize their utility from stable set of preferences and accumulate an optimal amount of information and other inputs in a variety of markets”. And this assumption is argued to be applicable to all human behaviors including different types of human beings and different cultures (Buckley and Chapman, 1996).

In essence, the system of market capitalism is conceptualized by Marxism and other scholars to be a unique mode of production. Consider the argument that most conventional market economists advocate. The dominant paradigm in economics argues from a deterministic view or theoretical perspective rooted in the Aristotelian philosophical tradition. As outlined by Hume and Locke this paradigm was “scientific” and came to influence contemporary social science to the present day (McNeill and Freiberger, 1993). The dominant social science and economic neo-classical paradigm (e.g. market capitalism) in particular have been under this theoretical perspective for centuries. Economics is “modeled upon the great successes of the natural sciences: they are in this sense, ‘positivist’” (Buckley and Chapman, 1996). It is this argument over what is “science” that is the heart of the modernist and post-modernism debate.

However, one critical point needs to be made. Few, if any of the scholars, who debate the issue of “scientism”, actually get into the details of what is science. The economists simply use terms like mathematics and models and the social scientists back off. Casson (1996) documented this struggle, for example, between the fields of economics and social anthropology. Rarely does either the economists or the social scientist consult or study the natural sciences of today, not as the philosophers pondered on them centuries ago. When doing so, the economists would learn that science is mathematics as a tool and that formalism does not mean rigid formulas run on computers (Lakoff, 1988).

In essence, the social scientist research argument for being scientific would point to statistical and quantitative theories and methods. Either a new definition must be given to science or another term use to describe the work of social scientists. Science, for one thing, is far more than the gathering of statistics. Science means that an activity, phenomena or event can be "described", "explained", and "predicted" (see various works listed below by Chomsky in linguistics; and Lakoff, 1988). While chemists and physicists will use control and experimental groups (the favorite methodology of social scientists), they will do so to check theories, results and provide predictable or verifiable numerical data. The primary mode of hypothesis generation is through observation and recording every day data. In economics, data can be quantified, described and to a certain explained, but rarely predicted. In fact, when the social science fields are confronted with that fact, they will use probabilities and percentage of outcomes rather than have any degree of certainty. Besides that, a fact, from social science perspective, can be interpreted in different ways.

So what then is economics? The author and philosopher C.P. Snow raised this question many times several decades ago when he noted that science is really an "art." This observation is certainly true of the social sciences. Snow extended that observation to all scientific fields, including medicine. In the end, the issue is that "unlike physics, economics yields no natural laws or universal constants. That is what makes decisive falsification in economics so difficult. And that is why, with or without experiments, economics is not and never can be a proper science." (*The Economist*, May 8, 1999, pp. 84) However, consider other academic fields that do meet scientific criteria of description, understanding, explanation, and predication.

Within the social sciences over the past few decades, the only field that qualifies as a science is "linguistics." As Chomsky notes, "The beginnings of science is the recognition that the simplest phenomena of ordinary life raise quite serious problems" (1988, pp. 43). If economics is to get beyond the ideological tautology that it now finds itself, it must adhere to being scientific rather than biased to one paradigm or another. There are other newer approaches to logic and mathematics which could assist economics, as McNeill and Freiberger (1993) point out:

> In economics the mathematical and linguistic realms stand quite apart. Since economics is money and money is numerical, math brings powerful tools to the field. Yet the precision of math leads to overly crisp estimates and idealized models that seem to describe a society of robots. Hence, economics also employs verbal concepts like recession. Language handles real-life questions better and treats details more subtly, but it also narrows the scope of models and shortens chains of reasoning.
>
> (1993, pp. 96)

In other words, modern linguistics, with the seminal work Chomsky, is the exception in the social sciences. It may hold some significant keys to a new paradigm and a different approach to economics. Elsewhere (Clark and Sorensen, 1994; and Clark, 1997) has explored how Chomsky's transformational linguistic theories (generative grammar)[2] might be applied to business economics. At this point, the issue is to create a scientific field of economics that is devoid of ideology, biases, and hyperbole. Economics can be a dynamic and changing field and that is basically the study of human and group interaction. Within the field of sociology, an interactionist paradigm has been explored thoroughly by Mead and Blumer as "symbolic interactionism" (Mead, 1962; and Blumer, 1986).

The myth of the free market

The free market is the pillar of the capitalist economic order. Buckley and Chapman (1996) provide a short but cogent outline of the economic theory as it centers primarily around the neo-classical or conventional economic paradigm today. While most economists would not argue that the free market is an ideology, it is clear that its focus on the individual, materialism, and wealth are "culturally biased" if not narrow views of economics. Indeed, the free market has roots shaped by particular cultural and religious norms with values that in return promote particular forms of human interactions and social relations; and the outcome of free market interactions is always the empowerment and inclusion of some, while the marginalization and exclusion of others creating political and social contradictions and inequalities (Current discussions in international trade over the importance and role of "intellectual property rights" is a very pronounced and demonstrable indicator of this ideological bias.

Following the dominant neo-classical paradigm, the free market is the central category and the core of capitalist economics. Blaug claims that, "The history of economic thought ... is nothing but the history of our efforts to understand the workings of an economy based on market transactions" (1985, pp. 6). However, the free market is concerned exclusively with capitalism both as a mechanism of exchange and allocation and as a regulator of human and social relations. The history of market economics is not a neutral and value-free genesis. Rather, they

2 Transformational Grammar argues that there are meanings attached to words and expression in any language. In order to understand (communicate) people have animate understanding of syntax (language structure) and must then understand words that linked together to provide a grammatical text. This is done through data collected at the surface structure (language usage) and the deep structure (the meanings for words in sentence). In a parallel analytical framework, everyday business life (surface structure) can be understood by getting at the meanings (deep structure) that inform and provide meaning to business situations and activities. The task of economics is to understood that transformational "rules" that provide the explanation between the deep and surface structures of business situation.

have cultural and philosophical roots that are embedded with peculiar political power relations due to historical happenstance and dominance of one paradigm over another.

Consider the neo-classical paradigm in economics again. "Any serious social science or theory of social change must be founded on some concept of human nature. A theorist of classical liberalism such as Adam Smith begins by affirming that human nature is defined by a propensity to truck and barter, to exchange goods: that assumption accords very well with the social order he defends" (Chomsky, 1988, pp. 70). Furthermore, "If you accept that premise (Smith's which is hardly credible), it turns out that human nature conforms to an idealized early capitalist society, without monopoly, without state intervention, and without social control of production" (ibid., 70).

A pure concept of market exchange can hardly exist if it is based on the assumption that the market operates free of any political, cultural and socio-organizational constraints. Yet this is exactly the claim of contemporary "transactional costs economists" (Williamson, 1975, 1993, and 1996) built upon Coase's earlier observations about the firm (Coase, 1937). Otherwise, the market exchange as an abstract concept could only make sense if a transaction took place between many actors who are unaffected by any kind of established social, political and cultural relations. Neoclassical economics regards the free market as being separate from and autonomous of social, political and cultural specificity. This is because

> Neo-classical economics has kept Throeau's individualistic (and hence no human institutions or no systemic effects) means that individuals will never be able to comply with any sort of institution or common good and Smith's 'all human institutions -- public and private - so invariably (they) produce absurd results that they have no presumptive legitimacy' (so that people have a) strong aversion to any type of human institutions and collective action ...(hence kept the) myth alive by failing to internalize the systemic synergies of societies...
>
> (Rienert 1997, pp. 5)

Theoretically, the market mechanism where exchanges of goods and services are motivated by profit can only operate adequately when business people follow certain behavioral norms. Among economists, there is little dispute about the logic, measurement tools and mathematical formulas of such deterministic market mechanism. However, there is a fundamental disagreement about whether the market mechanism is based on "human nature" or "learned" behavior. Neoclassical economists believe the response to the market mechanism is an inherent part of human nature in search for profits. They fail to understand that business activities and economic accumulation processes are influenced by socio-cultural factors, which lead to various forms of capitalism, such as the East Asian “crony capitalism” in general and the “Chinese capitalism” in particular with its peculiar “Chinese characteristics”. In other words, they fail to understand that the business situations and everyday life of the firm comprise the economic phenomenon worthy of comprehension.

In reality, what the free market does is not limited to its economic function in allocating resources and distributing income. To a large extent, the free market shapes certain forms of culture; cultivates or impedes forms of human interactions and social relations; and supports a defined structure of power. The free market is “as much political and cultural institutions as they are economic”. Economics must be expanded to include the effects of markets on both the structure of power and the process of human development.” In order to do this, an entirely non-political and non-culture specific approach to economics must be taken, one that recognizes the everyday economic realities of a firm and the interactions of people within the firm as well as the general public (Clark and Fast, forthcoming). Some scholars have advocated a Marxist or socialist approach. However, each of these frameworks bring with them political and ideological trappings that involve idiosyncratic and ethnocentric biases. Instead, we must turn to different basic philosophical approaches to economics other than those traditions of neo-classical and free market ideologies.

To say the free market is a cultural institution is to suggest that the way people interact in the market exchange process (i.e. regulating and coordinating their economic behaviors) shapes what kind of people they become because, The Economy - its markets, workplaces and other sites - is a gigantic school. Its rewards encourage the development of particular skills and attitudes while other potentials lay fallow or atrophy. We learn to function in these environments, and in so doing become someone we might not have become in a different setting. In other words, firms and people within them conduct everyday business activities which are constantly changing and forming “new relationships”. Business interactions across different socio-cultural and socio-political backgrounds cannot be fully understood and explained by the free market, nor can they be directed by the market’s “invisible hand”. What the neo-classical text book notions of the free market do is limited to allocation or distribution because the parties to the exchange - their culture, preference, values - are exogenously determined and not influenced by the exchange process itself. The “next relationships” phenomenon in the era of globalization with embedded and constant features of innovation is challenging the fundamental discourses of neoclassical and neo-liberal economic paradigms.

The contemporary free market economy implies not only an exchange institution for production of goods and services, but also an updating or upgrading process from tradition to modernization in which the creation of an ideological conformity between population and corresponding institutions is indispensable. In this sense, what is necessary to create a modern industrial society has less to do with cultural, social and political factors, but more to do with market mechanisms and economic forces? This approach to economics strives to justify itself as being “objectivist” (or “positivist”) and not culturally biased through the use of statistics and mathematical models. Accordingly, an economic development approach to economics which is rooted in the everyday business life presupposes a revolutionary transformation in ideology, philosophy, cultural traditions, psychological attitude as well as way of life. Those very elements that possibly cause sufferings and dislocations are turned into the inevitable prerequisite for creating a modern, rational, and industrial society. The grave policy failure of the “Washington Consensus” prescriptions in connection with economic stagnation in Lain America, financial crisis in East Asia, political and economic collapse in the post-socialist transition economies, and continuous underdevelopment in Africa is a perfect example! (Li, forthcoming)

Contrary to the neo-classical conceptualization of the free market where each individual (or state) is able to act upon his/her own goals, values and objectives without subordination or subjection to any other individual or collective, the realities of the actual market is a political institution that eventually empowers some and marginalizes others. The free market rules out the free exercise of collectives, other groups or individual initiatives: One is free to do anything as long as it is through the market exchange. This is one of the reasons that neo-classical economics has a difficult time understanding and explaining entrepreneurship. It simply does not fit the free market ideology despite various attempts to do so.

At the current stage of global capitalism, the market is redefining the concept of “national economy” within the framework of the nation-state. The relative decline of state autonomy is a manifestation of the power of capital - the mobility of transnational firms, financial institutions and powerful individual investors to transfer production to countries or regions where state policies may be more preferential to capital. Into the 21st Century,, the market defines the limits of state politics and economists exert unprecedented influence on policy-makers. States no longer have the capacity to act as buffers between domestic and international economic actors. Rather, they have to adjust domestic policies or priorities to respond to the world economy. Consequently, states become “transmission belts” (Cox, 1993)of global economic forces penetrating local borders and markets. The domestic political and institutional spheres face an inherent contradiction: On the one hand, states are the custodians of society that have obligations to fulfill the role of providing social welfare and security and protecting national interests; on the other hand, the indisputable power of capital mobility reduces their capacity to do so. Yet in the end, governments have a "social contract" with their public. The state must play a role in economic activities since the consequences impact every citizen. We will say more about this below.

Globalization and the "Next Economy"

The Anglo-Saxon neo-classical approach to economics fosters and promotes globalization as a key component to business development. For all countries the necessity for integration into the global market system in order to trade, prosper, and grow entails structural differentiation and functional specialization. Trade, for example, as a means of exchange of goods and services is dependent upon laws (Porter, 1990 and Williamson, 1996). This is precisely why developed nations, lead primarily by the USA insist upon the creation of intellectual property laws, their enforcement, and recrimination (Casson, 1996, pp. 1168). Reinert (1998) criticizes this neo-classic approach to trade and free market because in reality the raw materials producing countries are not embarked upon free trade but act simply as colonial suppliers of goods and services to the developed nations.

In most cases, the globalization process entails that the national labor forces be divided into contract and temporary workers with members of each group receiving differentiated salaries and welfare benefits. Since economic mobility in the hierarchy of the world economy requires higher levels of production and technology, the ruling economic and political leaders in most countries are pushing forward greater vertical linkages to the capitalist market and deepen their internal accumulations through exploitation of surplus labor. The economic and business leaders therefore hope that the globalization of local economies to the world market could reinforce their own position and promote internal economic expansion. Rapid industrialization with in the country, in their view, hence attracts foreign direct investment by providing "favorable" labor conditions to multinational companies and by reducing welfare costs, as well as providing tax free zones, and mitigating environmental regulations.

Consequently, the credibility of any government has come to rest on its economic performance and its relations with the international capital markets. Some scholars have argued that it is exactly this problematic relationship which lay at the heart of the Southeast Asian economic crisis in the late 1990s. The tendency toward globalized economic systems in developing nations makes them politically vulnerable to the setbacks of in their own domestic economy and predicates the further breakdown of the international financial markets. Many government officials thus realize that the only way to stay in power is to promote global economic growth and expansion by all means, even by political authoritarianism through harsh labor exploitation. In other words, the neo-classical globalized market is closely connected with political legitimacy and internal power struggles.

Now in the new Millennium, the free market is seen as responding far more rapidly to subtle changes in both people's choices and social values than ever before. The latest economic concept heralded as "The New Economy" (*The Economist*, July 24, 1999 among other sources) but not fully understood. In fact, Clark (2003) notes that the best approach is label the phenomenon, the Next Economy because it challenges most of the basic economic assumptions that underlie neo-classical economics (Clark and Jensen, 2001). Arguments are purported that undermine, for example, Europe's so-called "social or welfare" states, especially in Scandinavia, as not being competitive in the New Economy (The Economist, Aug. 23, 1997, pp. 37-39). The problem, according to many editors and some politicians is that governments are "encouraging people to work less (which) is a bad way to create growth" (Newsweek, Dec. 27, 1999, pp. 116). The basic economics question is "who says so?" In fact, a strong argument could be made that what has encouraged the Next Economy in America is exactly that free time for workers who in turn spend money but more importantly develop new business ventures. To suggest the opposite is not supported by facts.

The Anglo-Saxon logic of organizing economic activities supposes to be entirely based on competition, as Porter (1980 and 1990) has clearly demonstrated in his pervasive influence on political and economic leaders. However, in retrospect both the English and American historical examples showed the opposite – protected trade and competition. As List sharply observed,

> Had they (England) sanctioned the free importation into England of India cotton and silk goods, the English cotton and silk manufactories must of necessity soon come to a stand. India had not only the advantage of cheaper labour and raw material, but also the experience, the skill, and the practice of centuries. These effect of these advantages could not fail to tell under a system of free competition…. Accordingly, England prohibited the import of the goods dealt in by her own factories, the Indian cotton and silk fabrics.
>
> (1885, pp. 42-43)

There lacks no evidence[3] that it was protectionism rather than the free market that made the United States the richest and most powerful country in the world:

[3] Chomsky (1997), among other scholars, has some concrete examples of the US protectionism: The virtual destruction of Colombia's wheat growing by such means is one of the factors in the growth of the drug industry; Kenya's textile industry collapsed in 1994 when the Clinton administration imposed a quota, barring the path to development that has been followed by every industrial country; in December 1996 Washington barred exports of tomatoes from Mexico in violation of NAFTA and WTO rules, which was at a cost to Mexican producers of close to $1 billion annually; steep tariffs on Japan supercomputers aimed at protecting US high-tech industry, etc.

> In Latin America, Egypt, South Asia, and elsewhere, development was to be "complementary," not "competitive." … Marshall Plan aid was tied to purchase of U.S. agricultural products, part of the reason why the U.S. share in world trade in grains increased from less than 10 percent before the war to more than half by 1950, ... U.S. Food for Peace aid was also used both to subsidize U.S. agribusiness and shipping and to undercut foreign producers, among other measures to prevent independent development.
>
> (Chomsky, 1997b)

Theoretically and logically, the owners of the means of production and their financial capital have to compete with each other in the market in order to get a larger share of the overall profits produced. When competition is driven for profits, it does not necessarily mean that actors in the market like to behave in that way. Nor are the same actors addicted to an endless process of wealth accumulation, as the neo-classical economist argue. Rather, what is seen in reality is that when competition becomes systematic, "the interaction of class and competitiveness create not just an economic system but a social system: what happens in the kind of economy tends to dominate every aspect of our lives" (Hargrove, 1995, pp. 2).

The paradox facing most states especially developing countries is that on the one hand, they are under pressure to cut spending for the sake of competition, while on the other hand, they have to provide the necessary ingredients for competitiveness, such as infrastructure, education, job training research and development policies. The classical economic assumptions of comparative or competitive advantage, mutual benefit and equilibrium are becoming increasingly outdated. Casson (1996) makes an interesting series of arguments in outlining the need for economist to have equilibrium. As he puts it, "The (economist) initial position is therefore of no consequence for the final position that is attained. History, therefore, does not matter under these assumptions: today's equilibrium is explained entirely by today's circumstances, and the state of the system yesterday is quite irrelevant" (1996, pp. 1159). To do otherwise forces the economic analysis of business "recursive" or a nightmare for any economist since the amount of data is never-ending (ibid., 1159). Hence the logic and nature of market competition eventually leads to limited information flow by the privileged and inevitably create a monopoly to the exclusion of new enterprises not sanctioned or controlled.

The globalization of capitalism in the name of the New Economy is maintained not only through competition but also through the constant reproduction of new commodities and through innovations and revolutions in modern technology controlled by those same nations and corporations. Those exceptionally skilled in advanced engineering and computer technologies are supposed to be rewarded with higher levels of income than those less skilled. As Greenspan claims, “So long as material well being holds a high priority in a nation’s value system, the persistence of technological advance should foster this process” (1998, pp. 421).

Rooted in the material process of market competition, the neo-classical ideology of globalized competitiveness has been taken for granted as a fact of life to which the general public acquiesces. The free market been seen as a natural law, a natural force that is beyond questioning and resisting. As Rinehart (1997) observes, “Historically, the concept of competitiveness has been used to justify business opposition to unions, reduced hours of work, wage increases, paid vacations, health and safety regulations, anti-pollution laws, and so on.” Nowadays, competitiveness is used to transform democracy and remove from the agenda of government tasks which are defined as barriers to business competitiveness, such as income and wealth distribution, business restrictions, laws on taxation and protection of union activities.

The Next Economy and the old “Social Contract”?

Contrary to the neo-classical argument that the free market system is the most effective means of reducing poverty, it is actually the globalization of this system that is pushing forward technological revolution, financial and trade liberalization, environmental pollution and degradation, welfare downsizing, corporation restructuring, production relocation, free movement of cheap labor and other consequences. Any sub-set of these economic conditions rests as the roots to permanently impairing and hurting economies in Eastern Europe, East Asia and Latin America, not to mention Africa.

The collapse of the financial markets in East Asia 1997 caused dramatic decline of living standards of millions. For example, mis-directed privatization policies and forced bankruptcy of hundreds of state enterprises in China, millions of workers have been or are being laid off. At the same time, the state is distancing itself from spending in welfare and social programs. It is unofficially confirmed that the rich-poor gap in China has already surpassed that of the United States.

Even so, the free market is viewed by political and economic leaders as the most efficient way to regulate society. It is increasingly becoming the societal ideology, and at the same time economic growth is growing to become a standard way of viewing social development. As a result, the three market elements - supply, demand and price - become not just exchange utilities, but are embedded with political and socio-cultural implications. In other words, market relations and social relations are implicitly becoming the two sides of one coin. Accordingly, social relations have to be transformed or adjusted to aim at creating new ways of thinking in conformity with the rules and values of the market.

Seen from the above perspectives, the current globalization of the free market system can also be described as a new age of “imperialism” (Wood, 1999). When developing countries have to integrate their economies with global capitalism based on free market parameters: free prices, the removal of subsidies, the opening up of developing, transitional and emerging economies to international trade, freely convertible currencies, privatization of the state-owned companies, absorbing foreign investment, closing inefficient enterprises and laying off redundant workers, these countries are actually playing the market rules set up by the dominant neo-classical paradigm. In other words, they are entering a trap as only a rule-player not rule-settler, where they will always feel powerless. Without a clear comprehension of the production and understanding of actual everyday business life in developed nations, they will be permanently handicapped.

Understanding neo-classical economics as it actually works and what the alternatives are requires a through understanding of the economic, political, social structure of vertical and horizontal orders. The market represents the vertical order, whereas democracy represents the horizontal order. The fundamental task of the neo-classical political order must not only protect its economic order through laws and regulations but also facilitate all mechanisms in which the market can fully develop, expand and flourish. In other words, the neo-classical political order must assist the economic order on which the continued hegemony of the dominant class is based. To lose the economic order is to lose the reproduction of the material basis on which the dominant class will rely to sustain its hegemony.

Often advanced as part of the Anglo-Saxon neo-classical economic paradigm, liberal democracy encompasses the notion of the “social contract”, i.e. a contract between the state and its citizens that binds the two sides together in a collective society. The basic concept of the social contract developed by Locke and Hume centuries ago connotes an agreement that defines authority and obligations. Legitimate authority is created when individuals give consent for the initiation of the agreement. As Lunvall (1992) and Nelsen (1993) note, this is particularly true today when knowledge and learning are considered an important part of national innovation programs and systems.

There is a clear problem in the dawn of the 21st Century with the parallel between the firm and the state, since in both cases there is an absence of a theory of the firm in modern economic theory and an absence of the theory of the State. “Both firms and states are institutions which are brought to life by the kind of systemic synergies (e.g. Next form of social contract) which are excluded in neo-classical theory through the assumptions of full divisibility of resources, of perfect information, perfect competition, and of the absence of increasing returns” (Rienert, 1997, pp. 18).

In other words, citizens concede certain individual freedoms and accept certain obligations in exchange for the provision of certain goods and services provided to them by the state that they would have difficulty attaining as individuals and through other mechanisms. Examples are highways, education, public health and welfare systems, waste treatment, and throughout most of the 20th Century, certain industries dedicated to the public good such as power, electricity and water. Extensions of the social contract have been applied to areas that needed to be regulated since much of the financial support and contracts were government driven, such as telecommunications, airlines, and defense (military weapons).

In the current era of market-dominated economics, the notion of social contract as citizen-state interactions has undergone enormous challenges and tremendous transformations, namely that the consent and consensus involving obligations of both citizens and government and accountability-control mechanisms are increasingly being marketized. In other words, the agreements embodied in the social contract is being maintained and relegated through market-based mechanisms. This change can seen in the state policies of “privatization” or “de-regulation” of certain formerly owned and monitored state monopolies.

Although the market mechanism as an alternative regulative method has long existed, it has a strong tendency to break contract forcing governments to “contract-out” their obligations in order to respond to competition, productivity and efficiency because, the market notoriously tends to universalize itself. It does not easily coexist with institutions that operate according to principles antithetical to itself: Schools and universities, newspapers and magazines, charities, families. Sooner or later the market, under these state “reforms” or policies, is expected to absorb them all. It puts an almost irresistible pressure on every activity to justify itself in the only terms the neo-classical economist recognizes: to become business-like.

For example, in some welfare states like Denmark and Sweden, the governments are beginning to award private firms business contracts to manage welfare or public services which used to belong to the responsibilities of the governments, and universities are beginning to be governed by a management board where the majorities of members are from the business sectors. In the United Kingdom, higher education has all but turned over to being “business-like”. Drastically reduced funding from government has turned British education from one "seeking knowledge" to one "seeking money" in order to support itself.

As a result of the marketization of the social contract, the "social" part of the contract is becoming less universal but selective. Hence political participation is becoming less inclusive but more exclusive. Thus, the concept of citizenship as a means of political empowerment is changed to one of economic empowerment. This implies the fundamental transformation of the social contract which emphasizes social and political rights.

Furthermore, the neo-classical economic discourse that regards citizens as both consumers and customers threatens to transform the traditional conceptualization of the social contract into a social subcontract and, thus fundamentally changing the relationship between citizens and state and the political foundation of government. In fact, in many states today, documents and programs are described as such. The citizen is referred to as "customer". And the results of government are seen as being either profitable or not.

As a result, democracy in the form of accountability mechanisms regulating citizen-government relationship has been permanently altered. Under the non-market-centered social contract people could use direct political mechanisms to hold the government apparatus accountable. But under the market-dominated social contract, the market is ideologically defined not only as a neutral place (institution) for allocation of goods, resources and services, but also as the most efficient mechanism to regulate society and human relations. As we have seen this is questionable and spurious.

Conclusion

The neo-classical economic paradigm of the free market tends to make people forget the real social aspects of human activities: common need (not individual preference), cooperation between divisions, and the relationship between the owner and the owned. When neo-classical economics addresses liberal democracy, it means the capitalist free market system. Free is mainly freedom for business and corporation to operate as they chose. Individual and social rights are narrowly defined within the framework of politics. The crucial question is: can liberal democracy really democratize the key elements within the neo-classical economic system, such as capital, the means of production, wealth distribution, etc.?

The neo-classical free market school of thought believes that the best way for all countries to develop in a global economy is that everyone is subject to the same rules: *their rules*. No better exists than in the struggle over intellectual property rights. Yet, the diversities of nation-states mean that "the world remains ruled not just by hard choices about the distribution of income and power between capital and labor but also by stark differences among nations in their economic goals and interests."

George Soros, one of the world's biggest financial capitalists, openly acknowledges that the origin of the recent world financial crisis is to be found in the global capitalist system itself, namely "in the mechanism that defines the essence of a globalized capitalist system: the free, competitive capital markets." Furthermore, he contends as well that the ideology of global capitalism as manifested by the Next Economy faces a historical challenge that could produce a strong backlash against market capitalism, particularly in the developing world. And he should know as his own heavy financial involvement in Hungary and Russia, among other countries, have clearly demonstrated that neo-classical economics does not work universally, if at all.

Furthermore, since market power has strong tendency to define political power, liberal democracy can hardly become a governing principle in international institutions and inter-state relations. Not only Western bureaucracies themselves are organized on the basis of strict hierarchies, but also international multi-lateral organizations like IMF and the World Bank. The United Nations, especially, was established and maintained based on oligarchic structures where important decisions are made by major economic powers. The democratic principle of "one citizen - one vote" can barely be implemented when the interests of the state economic titans are challenged. Nor can "one state - one vote" be realized when the "national interests" of developed countries' economic interests and powers are threatened.

If the global economic system and policies are not changed, the results for developing, transitional and emerging nations will be catastrophic. Neo-classical economics and its version of liberal democracy in the end will cost more in terms of our health, lives, environment and even businesses. The entire world does not work according to the narrowly defined neo-classical economic propositions and theories. Nor should it.

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